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Results of Specific Studies Related to Transit and its Alternatives

Report by the UNCTAD Secretariat

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List of abbreviations

ACIS	Advance Cargo Information System
ASYCUDA	Automated System for Custom Data and Management
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
ITC	International Trade Centre
PTA	Preferential Trade Area

Contents

		Paragraphs
	Introduction	1 - 2
I.	Implications of high transit costs on the overall development of the land-locked developing countries . .	3 - 4
II.	Subregional and regional cooperation	5 - 7
	(A) Identification of specific areas of the promotion and integration of transit infrastructure and services and harmonization of transit transport policies and legislation . .	5 - 6
	(B) Assessment of the regional trade possibilities for the expansion of the trade sector of land-locked developing countries	7
III.	Improvement of current transit insurance regime	8 - 12
IV.	Application of new information technology to improve transit services	13 - 14
V.	Identification of specific training needs to improve the managerial capacities and the skills of personnel involved in transit operations to ensure effective utilization of transit transport facilities	15 - 16
VI.	Development and expansion of all other alternatives and/or complements to ground transportation in order to improve the access of land-locked countries to foreign markets	17 - 20

INTRODUCTION

1. Paragraph 10 of General Assembly resolution 46/212 invites the Secretary-General of the United Nations Conference on Trade and Development to carry out, within the overall level of resources for the biennium 1992-1993, specific studies in the following areas, inter alia, bearing in mind the need to address the concerns for transit developing countries, and to report on the results of the studies to the Trade and Development Board and the General Assembly at its forty-eighth session:

(a) Implications of high transit costs on the overall development of the land-locked developing countries;

(b) Identification of specific areas in the context of subregional and regional cooperation for the promotion and integration of transit infrastructure and services and harmonization of transit transport policies and legislation and the assessment of regional trade possibilities for the expansion of the trade sector of land-locked developing countries;

(c) Improvement of current transit insurance regimes;

(d) Application of new information technology to improve transit services;

(e) Identification of specific training needs to improve the managerial capacities and the skills of personnel involved in transit operations to ensure effective utilization of transit transport facilities;

(f) Development and expansion of all other alternatives and/or complements to ground transportation in order to improve the access of land-locked countries to foreign markets.

2. The present report summarizes the results of these studies.

I. IMPLICATIONS OF HIGH TRANSIT COSTS ON THE OVERALL DEVELOPMENT OF THE LAND-LOCKED DEVELOPING COUNTRIES

3. The study 1/ on transit costs and their implications for the overall development of land-locked developing countries demonstrates, using IMF balance of payments statistics, that for imports, freight costs were approximately 4.4 per cent of the c.i.f. import value of developed market economies and 8.8 per cent of the c.i.f. import value of developing countries in 1990. However, for land-locked developing countries in West Africa, they represented approximately 22 per cent; in East Africa, approximately 16.5 per cent; and in Latin America, approximately 14 per cent. For exports, a range of statistics shows that costs of exporting from a central point of loading within land-locked countries (ex-works, ex-factory, ex-mail, ex-plantation, ex-warehouse, etc.) to f.o.b. at the seaport of shipment overseas constitute up to 32 per cent of the f.o.b. value (taxes excluded) and up to 47 per cent of the ex-works value of a range of commodities.

4. International transport costs act as a barrier to trade which is analogous in its effects to import duties and export taxes. They reduce the

competitiveness of producers in land-locked countries supplying overseas markets. At the same time they afford considerable natural protection from overseas competitors to producers within land-locked countries supplying domestic markets. Viewed in this light, the international transport costs of land-locked developing countries resemble an inward-oriented trade regime which is biased against production for export. Although it is still a matter of debate for some, such a trade regime has usually been associated with low rates of national economic growth; major policy reforms have thus been put in place in many countries to bring about a transition to an outward-oriented trade regime which does not discriminate between production for the domestic market and exports, nor between purchases of domestic goods and foreign goods. These efforts are now being extended to the field of international transport, as some countries take measures to upgrade port services and deregulate international shipping. However, an important component of the international transport costs of land-locked countries is incurred during transit operations between their borders and the sea. These costs can be modified in limited ways by their own domestic reform measures regarding international transport policy, but ultimately most costs are cooperation-dependent. That is, regional cooperation measures of various kinds are the major way in which these costs can be influenced.

II. SUBREGIONAL AND REGIONAL COOPERATION

A. Identification of specific areas for the promotion and integration of transit infrastructure and services and harmonization of transit transport policies and legislation

5. Specific areas for subregional and regional cooperation, with regard to transit infrastructure, services, policies and legislation, are identified in five subregional studies of transit systems serving land-locked developing countries, and are synthesized in a general overview of the current situation and proposals for future action. 2/ For transit infrastructure, the practical experience of SATCC shows how it is possible to mobilize resources for international transport projects within a regional and inter-modal framework, based on comprehensive subregional traffic forecasts. For land-locked countries transit routes to the sea can also be improved within programmes to develop an integrated subregional and regional transport network, such as the development of Trans-Africa Highways; Asian Land Transport Infrastructure Development (ALTID); and the "Correador de los Libertadores" railway development project launched in Latin America by Bolivia, Peru, Brazil, Paraguay, Argentina and Chile. Specific areas for subregional and regional cooperation for the promotion and integration of transit services include measures to increase competition between, and to enhance the capabilities of, the providers of transit services. For the former, measures to liberalize trade in road transit services are important. For the latter, human resource development programmes, developed and delivered on a subregional basis, are important as is the formation of subregional associations of road transporters, shippers' councils and freight forwarders from land-locked and transit developing countries.

6. With regard to the harmonization of transit transport policies, a specific area where considerable progress can be made is elaboration of working arrangements and ongoing discussions between key operational units,

for example customs authorities or railway organizations in transit and land-locked countries. The main specific areas for subregional and regional cooperation in terms of the harmonization of legislation are: customs transit regimes; road maintenance regimes; carriers' liability regimes; and the range of legislation required to facilitate international road transport operations. A major problem in the process of regional and subregional cooperation is implementation. A key area for cooperation in this regard is the establishment of institutional mechanisms to monitor and enforce cooperative arrangements.

B. Assessment of the regional trade possibilities for the expansion of the trade sector of land-locked developing countries

7. An assessment of regional trade possibilities was made in Africa, South of the Sahara, with particular reference to land-locked countries. 3/ An analysis of the volume of trade in "matching products" (products both exported from and imported to a subregion) reveals that such products constitute approximately 50 per cent of total annual imports of PTA and ECOWAS, and 33 per cent of total annual imports of ECCAS. The International Trade Centre (ITC) has been developing a mechanism for the identification and dissemination of information on trading opportunities aimed at expanding trade flows at the subregional level. In the long term, the potential of intra-subregional trade will depend on the capacity to increase production in those areas where land-locked countries have a comparative advantage and on the degree of factor mobility at the subregional level.

III. IMPROVEMENT OF CURRENT TRANSIT INSURANCE REGIMES

8. The study 4/ on the improvement of current transit insurance arrangements shows that procedural and infrastructural deficiencies in the transit systems serving land-locked countries mean that the transport of goods imported to and exported from land-locked countries results in extra hazards compared with their neighbouring coastal countries. Insurers' experience has shown that most of the loss or damage to cargoes of land-locked countries occurs during the inland leg of transport. If they accept to cover this part of transport, many insurers quote relatively high rates. Moreover, when inland transport or port conditions are known to be deficient or insecure, many overseas insurers abstain from giving cover based on the "Warehouse to Warehouse Clause". Local insurers are generally inclined to grant cover on a "Warehouse to Warehouse" basis. However, their capacity to satisfy the requirements of the insured is often hampered by a variety of factors.

9. Because of the small volume of business they write, local insurers have had to quote rates relatively higher than those offered by overseas insurers. Also, because of the lack of balance between such premium volume and the corresponding commitments, local insurers have had to reinsure heavily abroad, resulting in an important outflow of foreign exchange. Furthermore, in contrast to overseas companies, local companies in land-locked countries often lacked the ancillary services which marine insurers require to service claims, such as qualified surveyors, average adjusters, et al., a situation which has led to many delays in the settlement of claims and often to litigation before the courts.

10. To support their national companies and to save foreign exchange, many Governments in developing countries, including land-locked countries, have enacted rules and regulations providing that imports should be insured locally. However, local insurance has meant that importers were indemnified in case of loss or damage to their merchandise in local currency, whereas the replacement or repair of loss or damage to goods imported required foreign exchange. This led many importers in these countries to continue in a discreet way to buy maximal covers abroad in foreign currency, while taking minimal covers in the local market. Such duplication of covers clearly increases the cost of imported goods.

11. While the real solution to alleviate difficulties encountered in cargo insurance is improvement of transit infrastructure, services and procedures, transit insurances regimes may be improved through four specific measures. First, Governments should lift restrictions on the free choice of insurers while at the same time taking measures to ensure a proper supply of insurance cover by the local insurance markets. In this respect it may be appropriate to allow local insurers to seek agency appointments from larger marine insurers in international markets, to write on their behalf, and to share with them marine business on a co-insurance basis. Secondly, where regulatory measures providing for local insurance on imports cannot be relaxed or waived altogether for political and financial considerations, local insurers should attempt to obtain more extensive and comprehensive reinsurance facilities from their international reinsurers so as to be able to meet as fully as possible the demand for cover in the local market. Thirdly, insurers in land-locked countries should invest in loss prevention and loss minimization by, for example, concluding agreements with specialist firms to attend cargoes at port, to ensure adequate and timely loading and unloading, to help to arrange repacking of any goods that are damaged, and to sell them for the benefit of the insurers, the insured, or both.

12. Finally, there is a need to make transporters and warehouse operators accountable for the safe delivery of goods in their custody. In developing the regulatory framework for carriers' liability, three European conventions might serve as models to be adapted to the particularities of the situation facing land-locked developing countries. These conventions are: the Convention on the carriage of goods by road (CMR); the Convention on the carriage of goods by rail (CIM); and the Convention on the liability of operation of transport terminals in international trade (adopted in Vienna in 1991). The recognition of the liability of carriers should also be associated with regulations rendering compulsory the covering of such liability by insurance.

IV. APPLICATION OF NEW INFORMATION TECHNOLOGY TO IMPROVE TRANSIT SERVICES

13. An assessment 5/ was made of both the potential and the problems of the application of new information technology to improve transit services, in the light of three major initiatives within UNCTAD: (i) the Advance Cargo Information System (ACIS); (ii) the Automated System for Customs Data and Management (ASYCUDA); and (iii) the Trade Point Programme. The assessment noted that the level of human resource development in land-locked developing countries was generally very low; organizational capacities were weak; and telecommunications infrastructure linking seaports to inland destinations was

often unreliable. In these circumstances, the difficulties of implementing electronic data interchange to improve transit systems should not be underestimated.

14. Efforts need to be directed therefore towards investing in the improvement of communications infrastructure in key transit corridors, and to integrating, where appropriate, computer skills into the human resource and institutional development programmes directed at providers of transit services. At the same time, however, it will be worthwhile to build upon present initiatives, particularly because transfer of technology and training are subsumed under implementation. The main immediate priorities will be:

(i) To explore, through case-studies of working systems, the possibilities of improving customs transit procedures through, for example ASYCUDA;

(ii) To interconnect adjacent national applications of the ACIS modal tracking modules into an international transport network.

V. IDENTIFICATION OF SPECIFIC TRAINING NEEDS TO IMPROVE THE MANAGERIAL CAPACITIES AND THE SKILLS OF PERSONNEL INVOLVED IN TRANSIT OPERATIONS TO ENSURE EFFECTIVE UTILIZATION OF TRANSIT TRANSPORT FACILITIES

15. The study 6/ identifying specific training needs to improve the managerial capacities and the skills of personnel involved in transit operations stated that the focus of training activities should be placed on operations and logistics, and that training activities should be designed to contribute to improving overall efficiency of transit services and to promoting more effective utilization of available transit transport facilities. Achieving this objective is complex. Transit operations, by their nature, involve many different actors. The study recommended that all service providers be targeted on a selective basis to enhance their performance, through training in such areas as management concepts and practices; equipment operations and skills; professional skills of key service sectors (e.g. freight forwarding, warehousing); and planning, monitoring and marketing tools. On the basis of a general understanding of transit operations, the study identified 35 training profiles, including functional training areas, training needs in relation to transit efficiency, training objectives, general course orientation, and target groups. The target groups include service providers in both land-locked and transit countries.

16. The study also considered implementation issues. It notes that UNCTAD and ITC appeared to be the only international organizations which had developed (or were developing) training programmes for trade logistics and transportation operations with a direct bearing on transit. However, the training materials had been designed to serve general requirements and would have to be re-cast and adjusted to focus on transit operations. Finally, the study emphasized that training to improve transit operations should be fitted into a general human-resources development strategy and policy framework, and that a number of non-governmental organizations had a role to play in developing and delivering training activities.

VI. DEVELOPMENT AND EXPANSION OF ALL OTHER ALTERNATIVES AND/OR COMPLEMENTS TO GROUND TRANSPORTATION IN ORDER TO IMPROVE THE ACCESS OF LAND-LOCKED COUNTRIES TO FOREIGN MARKETS

17. A study was completed on the role of air freight in African land-locked developing countries. It was aimed at assessing possibilities of improving access of land-locked countries to foreign markets through alternatives and/or complements to ground transportation. 1/ It stated that although these countries had a great need for air transport - both passenger and freight - they lacked many of the characteristics which would allow economic provision of much air freight capacity. Nevertheless, there was some evidence to suggest that land-locked sub-Saharan African countries rely more on air freight for exports than other countries in the region.

18. The problems constraining the development of air freight are both supply-side and demand-side factors. On the supply-side, air freight capacity is provided by African and extraregional, mainly European, carriers. The aircraft fleets of individual African carriers in land-locked countries are small; the airlines' networks are dispersed and aircraft utilization is low; costs are high; and productivity of airline staff is low, due to low skill levels and overstaffing. Over 75 per cent of all the scheduled air freight capacity is offered by European carriers. Available freight capacity is limited and it is also difficult to obtain the required quality of transport to European markets because of poor warehousing with inadequate cold storage. Other problems at major airports are documentation, security and handling systems. Ground access to airports from points beyond the environs of capital cities can also be difficult, and foreign carriers prefer a multi-stop service to interlining with African carriers at a regional hub airport, because the feeder services tend to have low frequency, poor regularity and use small aircraft.

19. On the demand side, most of the exports of the land-locked countries have a low value-to-weight ratio and are unable to justify the costs of air freighting. The commodities which are being, and are most likely to be, exported are largely of the horticultural sector, fresh fruit and vegetables, fresh cut flowers, and fresh fish. The seasonality of these products is a further problem.

20. The study makes a number of recommendations aimed at loosening some of the constraints of the development of air freight. On the demand side, the quality of products must be raised at the point of loading, ideally by involving the buyer in the total production and logistic process. On the supply side, airlines should be managed on a sound commercial basis; staffing levels should be reduced and training reinforced to increase productivity; business communications and management systems should be upgraded; the development of provincial airfields and feeder services should be encouraged; air transport systems plans should be made; and competition in the provision of airlines and airport services, with fuel as a priority, is required. Furthermore, a reorganization of airlines with cooperative ventures and fleet rationalization should also be promoted.

Notes

1/ International transport costs of land-locked developing countries, UNCTAD/LDC/Misc.10.

2/ The general overview is entitled: Transit systems for land-locked developing countries: current situation and proposals for future action, UNCTAD TD/B/LDC/AC.1/2. The five subregional studies are: Transit systems serving the land-locked countries: country profiles in West/Central Africa, UNCTAD/LDC/Misc.6; Transit systems serving the land-locked countries: country profiles in East/Central Africa, UNCTAD/LDC/Misc.7; Transit systems serving the land-locked countries: country profiles in Southern Africa, UNCTAD/LDC/Misc.8; Transit systems serving the land-locked countries: country profiles in Asia, UNCTAD/LDC/Misc.9; and Transit system for Bolivia and Paraguay, UNCTAD/LDC/Misc.15.

3/ ITC. Subregional trade potential in Africa, South of the Sahara, with particular reference to land-locked countries, UNCTAD/LDC/Misc.16.

4/ Improvement of current transit insurance arrangements for land-locked developing countries, UNCTAD/LDC/Misc.14.

5/ UNCTAD. Application of new information technology to improve transit systems, UNCTAD/LDC/Misc.17.

6/ UNCTAD. Training for transit operations, UNCTAD/LDC/Misc.18.

7/ The role of air freight in African land-locked developing countries, UNCTAD/LDC/Misc.13.